

Message Text

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R 171900Z AUG 73

FM AMEMBASSY MANAGUA

TO SECSTATE WASHDC 2241

INFO AMEMBASSY GUATEMALA

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

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GUATEMALA FOR ROCAP

E. O. 11652: N/A

TAGS: ECON, EFIN, NU

SUBJECT: ECONOMIC INDICATORS FOR FIRST HALF 1973

REF: STATE 025488

BEGIN SUMMARY: THE FOLLOWING ECONOMIC INDICATORS FOR THE FIRST HALF OF 1973 WERE PROVIDED THE AMBASSADOR BY GENERAL SOMOZA. SOURCES OF THE DATA ARE THE MINISTRY OF FINANCE AND THE CENTRAL BANK. ALL FIGURES ARE IN MILLIONS OF CORDOBAS UNLESS OTHERWISE INDICATED. EXPLANATORY NOTES AND EMBASSY COMMENT FOLLOW THE DATA PRESENTATION. END SUMMARY.

I. ECONOMIC INDICATORS JANUARY-JUNE, 1973 COMPARED TO JANUARY-JUNE 1972

JANUARY- JANUARY- PERCENT IN-
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JUNE 73 JUNE 72 CREASE (DECREASE)

1. GOVERNMENT REVENUS	613.4	343.2	78.7
A. DIRECT TAXES	67.6	68.3	----
1. INCOME TAX	38.2	34.7	10.0
2. PROPERTY TAXES	26.6	28.6	(6)
3. OTHERS	2.7	4.9	(44)
B. INDIRECT TAXES	325.2	229.8	41.5
1. IMPORT DUTIES	84.6	84.8	----
2. EXPORT TAX	90.6	1.8	4933.0
3. SALES TAXES	35.3	36.4	(3)
4. PETROLEUM PRODUCTS	25.7	26.1	(1)
5. TOBACCO	22.1	21.1	5.0
6. BEER AND LIQUOR	28.4	24.9	14.0
7. OTHERS	38.2	34.5	10.7
C. NON-TAX RECEIPTS AND			
CURRENT TRANSFER	53.4	19.5	173.8
D. CAPITAL RECEIPTS	167.2	25.5	555.7
2. CENTRAL GOVERNMENT			
EXPENDITURES	409.2	340.1	20.4
A. CURRENT	252.4	248.8	1.0
B. CAPITAL (SEE EXPLANA-			
TORY NOTES)	157.1	91.2	72.2
3. BALANCE OF PAYMENTS (IN			
MILLIONS OF CORDOBAS)			
A. EXPORTS	168.8	141.6	19.2
1. COTTON	51.1	55.8	(8.4)
2. MEAT	19.7	15.6	26.2
3. COFFEE	35.5	11.7	203.4
4. OTHER	62.5	58.5	6.8
B. IMPORTS (BREAKDOWN BY			
CATEGORY NOT AVAILABLE)	108.8	93.3	16.6
C. FOREIGN EXCHANGE			
RESERVES			
1. GROSS RESERVES	153.3	87.3	75.6
2. LESS SHORT TERM			
OBLIGATIONS	26.9	18.8	43.1
3. NET RESERVES	126.4	68.5	84.5
1. GROSS INTERNATIONAL			
LIABILITIES	126.5	116.0	9.0
3. NET	71.1	11.5	518.2
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4. MONETARY INDICATORS (IN			
MILLIONS OF CORDOBAS)			
A. CURRENCY AND SIGHT			
DEPOSITS	1,117.6	704.2	58.7
B. TIME AND SAVINGS			
DEPOSITS	674.5	513.7	31.3
C. COMMERCIAL BANK LOANS			
TO PRIVATE SECTOR	1,325.1	1,203.6	10.1

D. CENTRAL BANK CREDIT

TO COMMERCIAL BANKS 27.0 33.5 (19.4)

E. CENTRAL BANK CREDIT TO

CENTRAL GOVERNMENT, LESS

DEPOSITS 0.3 49.7 (1656)

F. CENTRAL BANK CREDIT TO

AUTONOMOUS AGENCIES 38.0 37.4 1.6

II. EXPLANATORY NOTES

A. RECEIPTS FROM THE 8.3 PERCENT PAYROLL TAX ON GOVERNMENT EMPLOYEES APPEAR TO BE INCLUDED UNDER "NON-TAX RECEIPTS AND TRANSFERS". THIS TAX, WHICH RAISED OVER 14 MILLION CORDOBAS IN THE FIRST HALF OF 1973, WAS SUSPENDED EFFECTIVE AUGUST 1 FOR THE APPROXIMATELY 90 PERCENT OF GOVERNMENT EMPLOYEES WHO EARN LESS THAN 1500 CORDOBAS PER MONTH.

B. "CAPITAL RECEIPTS" INCLUDES 140 MILLION CORDOBAS OF TREASURY NOTES PURCHASED BY THE CENTRAL BANK IN 1973.

C. "CAPITAL EXPENDITURES" APPEARS TO INCLUDE 91 MILLION CORDOBAS WHICH WAS TRANSFERRED FROM GON ACCOUNTS TO NATIONAL EMERGENCY COMMITTEE ACCOUNTS IN JUNE 1973. THIS MONEY HAS BEEN ALLOCATED TO VARIOUS RECONSTRUCTION PROJECTS AND SHOULD BE DISBURSED IN THE SECOND HALF OF 1973.
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INFO OCT-01 ADP-00 EB-11 COME-00 OMB-01 AID-20 TRSE-00

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R 171900Z AUG 73

FM AMEMBASSY MANAGUA

TO SECSTATE WASHDC 2242

INFO AMEMBASSY GUATEMALA

AMEMBASSY SAN JOSE
AMEMBASSY SAN SALVADOR
AMEMBASSY TEGUCIGALPA

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GUATEMALA FOR ROCAP

D. EXPORT AND IMPORT FIGURES ARE CENTRAL BANK ESTIMATES BASED ON EXPORT TAX RECEIPTS AND PRELIMINARY CUSTOMS AND CONSULAR DATA. BOTH FIGURES MAY REFLECT SOME REPORTING LAGS. THE CUSTOMS BUREAU ACCOUNTING SYSTEM WAS FULLY AUTOMATED, AND SEVERELY DISRUPTED BY THE EARTHQUAKE. HENCE, NO BREAKDOWN OF IMPORT COMPOSITION IS AVAILABLE. CUSTOMS AND THE CENTRAL BANK ARE IN THE PROCESS OF RE-ESTABLISHING THE DATA SYSTEM, USING THE SIECA COMPUTER.

E. NET FOREIGN EXCHANGE RESERVES DROPPED FROM A SEASONAL HIGH OF \$155.4 MILLION AT THE END OF MAY TO \$126.4 MILLION BY JUNE 30. A PAYMENT OF \$8.5 MILLION TO THE IMF ACCENTUATED THE DROP.

F. CENTRAL BANK CREDIT TO COMMERCIAL BANKS AT THE END OF JUNE WAS AT A SEASONAL LOW WITH 1972/73 COFFEE AND COTTON CROPS LARGELY SOLD, AND PLANTING FOR 1973/74 CROPS
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NOT YET UNDERWAY. DECREASE ALSO REFLECTS SCHEDULED PAYOFF OF A 5 MILLION CORDABA LOAN BY NATIONAL BANK. THE CENTRAL BANK EXPECTS TO EXPAND CREDIT TO COMMERCIAL BANKS BY ABOUT 140 MILLION CORDOBAS IN THE SECOND HALF OF 1973 TO FINANCE THE AGRICULTURE (60 MILLION), COMMERCE (60 MILLION), AND OTHER (20 MILLION). EXPANSION SHOULD TAKE PLACE IN JULY-OCTOBER.

G. EXPANDED CENTRAL BANK CREDIT TO THE CENTRAL GOVERNMENT WAS MORE THAN OFFSET IN THE FIRST HALF BY INCREASED GOVERNMENT DEPOSITS RESULTING FROM IMPRESSIVE REVENUE DUE PRINCIPALLY TO NEW EXPORT TAXES AND VERY LOW CAPITAL EXPENDITURES IN THE FIRST QUARTER. THE CENTRAL BANK EXPECTS THIS IMBALANCE BETWEEN REVENUES AND EXPENDITURES TO BE CORRECTED IN THE SECOND HALF AS ANNOUNCED INVESTMENT PROJECTS AND THOSE STILL IN THE PLANNING STAGE GET UNDERWAY.

III. EMBASSY COMMENT: A. WE JUDGE THE OVERALL PERFORMANCE OF THE NICARAGUAN ECONOMY IN THE FIRST HALF OF 1973 TO BE IMPRESSIVE. INITIAL, POST-QUAKE FEARS OF A CREDIT CRUNCH AND A MASSIVE GOVERNMENT DEFICIT DID NOT MATERIALIZE. ON THE CONTRARY, STRONG AGRICULTURAL EXPORTS CONTRIBUTED, AT

LEAST FOR THE SHORT RUN, TO LIQUIDITY INCREASES AND SUBSTANTIALLY GREATER TAX REVENUES. INDEED, THE EXPORT TAX, WHICH WAS ADOPTED AS A "SELF-HELP" EXPEDIENT, HAS PRODUCED NEARLY AS MUCH GOVERNMENT INCOME IN THE FIRST HALF AS ORIGINALLY PROJECTED FOR THE FULL YEAR, AND HAS RESULTED IN A TEMPORARILY EMBARRASSING FISCAL SURPLUS. IMPORTS ARE STRONGER THAN EXPECTED. THE INDUSTRIAL SECTOR HAS RECOVERED FROM THE EARTHQUAKE AND MANUFACTURERS REPORT BOTH DOMESTIC AND CACM SALES ARE RUNNING AHEAD OF LAST YEAR'S LEVELS. PRIVATE AND AID-FINANCED CONSTRUCTION ACTIVITY APPEARS TO HAVE PICKED UP CONSIDERABLY SINCE THE SETTLEMENT IN JULY OF A FIVE WEEK STRIKE. COMMERCE HAS COME BACK SOMEWHAT MORE SLOWLY IN MANAGUA, BUT AS SALES TAX COLLECTIONS INDICATE, IT IS NEARLY AT 1972 LEVELS NATION-WIDE. CURRENT EXPENDITURES BY THE GOVERNMENT ARE SLIGHTLY AHEAD OF LAST YEAR, AND AS NOTED, INCREASED CAPITAL EXPENDITURES ARE PLANNED FOR THE SECOND HALF. IN SUM, THE ECONOMY AT MID-YEAR APPEARS TO HAVE COME A LONG WAY FROM ITS SHATTERED CONDITION IN EARLY JANUARY. THIS LIMITED OFFICIAL USE

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SHOWING IS REMARKABLE BECAUSE IT HAS OCCURRED BEFORE AN OVERALL RECONSTRUCTION PLAN HAS BEEN DEVELOPED.

B. HOWEVER, THE DEVELOPMENT AND ACCEPTANCE OF AN OVERALL PLAN FOR MANAGUA APPEARS TO BE AN ESSENTIAL INGREDIENT IN MOVING FROM THE RECOVERY PHASE TO RECONSTRUCTION IN THE SECOND HALF. THE FABLED "MEXICAN PLAN" FOR THE "NEW MANAGUA" IS SCHEDULED TO BE FORMALLY PRESENTED TO THE GON AND THE PUBLIC, AUGUST 26. HOPEFULLY, AFTER AN APPROPRIATE BUT NOT TOO LENGTHY PERIOD OF STUDY AND DISCUSSION, IT CAN SERVE AS THE BASIS FOR AGREEMENT ON THE DIRECTIONS OF FUTURE GROWTH OF THE CITY AND PERMIT GOVERNMENT AGENCIES AND THE PRIVATE SECTOR ALIKE TO TAKE DECISIONS ON FUTURE INVESTMENTS WHICH ARE NOW BEING POSTPONED BECAUSE OF THE UNCERTAINTY OVER THE CITY'S FUTURE.

C. ANOTHER KEY FACTOR IN THE SECOND HALF WILL BE THE GOVERNMENT'S ABILITY TO IMPLEMENT ITS OWN INVESTMENT PROJECTS. THE GON DEMONSTRATED IN THE FIRST HALF THAT IT COULD EFFECTIVELY EXECUTE AID-FINANCED AND SUPERVISED PROJECTS. IT SHOULD BE NOTED THAT THE GON IN THE FIRST FOUR MONTHS OF THE YEAR DEVOTED VIRTUALLY ALL OF ITS SCARCE PLANNING AND MANAGERIAL TALENT TO DEVELOPING, NEGOTIATING, AND INITIATING PROJECTS FINANCED BY THE INTERNATIONAL LENDING AGENCIES. MOST OF THESE PROJECTS ARE NOW UNDERWAY AND THE GOVERNMENT SHOULD BE IN A POSITION TO DIRECT GREATER ADMINISTRATION RESOURCES TO ITS OWN PROGRAMS.

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R 171900Z AUG 73

FM AMEMBASSY MANAGUA

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INFO AMEMBASSY GUATEMALA

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GUATEMALA FOR ROCAP

D. A THIRD AREA OF CONCERN IS THE EFFECTS OF INFLATION AND ECONOMIC DISLOCATION CAUSED BY THE QUAKE ON EMPLOYMENT AND REAL INCOME OF LARGE SEGMENTS OF THE POPULATION. TOTAL EMPLOYMENT AT THE END OF JUNE PROBABLY APPROXIMATED OR SURPASSED PRE-QUAKE LEVELS. HOWEVER, THIS GROSS ESTIMATE DOES NOT REFLECT WHAT APPEARS TO BE A STILL CONSIDERABLE LOSS OF MIDDLE CLASS, WHITE COLLAR JOBS AND A CORRESPONDING INCREASE IN DEMAND FOR UNSKILLED, MANUAL LABOR. MOREOVER, PRICES OF JUST ABOUT EVERYTHING HAVE BEEN RISING DUE BOTH TO IMPORTED INFLATION AND DOMESTIC PROFITEERING. THE GOVERNMENT HAS NOT YET ANNOUNCED A WAGE POLICY, BUT HAS DEALT ON AN AD HOC BASIS WITH THE WAGE DEMANDS OF THE BETTER ORGANIZED, AND BETTER POSITIONED GROUPS SUCH AS THE CONSTRUCTION WORKERS, PUBLIC HEALTH EMPLOYEES AND SOME INDUSTRIAL WORKERS. THESE GROUPS HAVE WON INCREASES IN THE 30-40 PERCENT RANGE AFTER WHAT, FOR NICARAGUA, WERE LENGTHY WILDCAT

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STRIKES. AS A RESULT, THERE IS GROWING RECOGNITION THAT WAGE INCREASES MUST BE GENERALIZED AND EXTEND ALSO TO AGRICULTURAL WORKERS IF THE REAL WAGES AND PURCHASING POWER OF THE LOWER AND MIDDLE INCOME GROUPS ARE TO BE RESTORED, AND THE MOMENTUM OF THE FIRST HALF MAINTAINED.

E. ASSUMING THE GOVERNMENT CAN MAKE A REASONABLE DEGREE OF PROGRESS IN THESE THREE AREAS OF CONCERN, WE EXPECT A STRONG SECOND HALF. INITIAL, GLOOMY FORECASTS OF AN ABSOLUTE DECLINE IN THE GDP FOR 1973 HAVE BEEN SET ASIDE AND GOVERNMENT ECONOMISTS ARE NOW PROJECTING A MODEST GROWTH OF 2 TO 4 PERCENT. WE AGREE, AND WE BELIEVE THAT IF THE ECONOMY CONTINUES TO PERFORM WELL THROUGH 1973, THE STAGE COULD BE SET FOR A RECONSTRUCTION BOOM IN 1974.

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